Charltons - China News Alerts Newsletter - 02 July 2008

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# China News Alert Issue 247

## Capital Markets

### Listed firms ordered to improve corporate governance

China's securities regulator has recently ordered publicly traded companies to improve their corporate governance in the latest move to stabilise the equities market.

Long-term mechanisms must be put into place to prevent majority shareholders and affiliates from embezzling funds from listed firms, the China Securities Regulatory Commission (CSRC) said.

Board directors, supervisors and senior executives would be handed over to prosecutors if they were found aiding embezzlement, the CSRC noted.

Companies must aim to tackle the problems before 30th November. The regulator said it would not approve any stock incentive or refinancing applications if companies failed to meet the deadline.

The CSRC also urged companies to improve information disclosure systems to avoid insider trading and price manipulation, in order to protect the interest of small and medium investors.

CSRC Chairman, Shang Fulin, pledged to balance market supply and demand, and regulate the pace of fund raising to promote a stable and healthy development of the capital market.

Shang added that the regulator would implement a crackdown on market manipulation, irregular information disclosure, and false information and rumors.

The securities regulator hopes to boost investor confidence and stem share price falls with this series of measures, analysts said.

[Source: China Securities Journal](http://www.cs.com.cn/english/markets/200806/t20080627_1507605.html) ([see archive](Listed_firms_ordered_to_boost_governance_for_market_stability.pdf))

### Rule to achieve transparency

A regulation requiring companies in mainland China to be more transparent in their internal dealings will be enforced from July 2009.

The new rule was issued in a bid to strengthen corporate management among listed companies and to assist companies with global expansion.

Jointly issued by the Ministry of Finance, the China Securities Regulatory Commission, the National Audit Office, the China Banking Regulatory Commission and the China Insurance Regulatory Commission, the regulation requires listed companies to conduct self-evaluation of its internal controls, disclose annual evaluation reports and employ qualified agencies to audit the effectiveness of the controls.

The rule will be effective on 1st July 2009 for listed companies.

Regulators also encouraged non-public companies to follow the rule.

The rule identifies internal control as a process carried out by directors, board members, managers and other staff. It aims to guarantee legitimate corporate management, asset safety and authenticity of information disclosure, and raise the efficiency of management in disclosing a company's strategic development.

The rule requires Chinese listed companies to establish a healthy internal corporate environment, conduct risk evaluation, fortify control over internal activities, strengthen internal communication and reinforce internal supervision.

Vice Finance Minister, Wang Jun, said regulators will take measures to reduce the costs for companies to follow the rule.

He also said the rule is in line with international standards and could help domestic companies to expand internationally.

Regulators have increased efforts to improve corporate management recently by rolling out new rules and regulations, in a bid to perfect the infrastructure and bolster the performance of the stock market.

[Source: China.com](http://english.china.com/zh_cn/business/news/11021613/20080630/14939535.html) ([see archive](Rule_to_achieve_transparency.pdf))

### China acts to boost supervision over use of stock proceeds

The Shanghai Stock Exchange unveiled new rules recently to improve the monitoring of stock proceeds used in publicly traded companies.

The rules come after China's securities regulator ordered a long-term mechanism be put in place to prevent majority shareholders and affiliates from embezzling funds from listed firms.

Proceeds from initial public offerings, private placements and bond sales must be put in an account opened by the board of directors, the rules said.

Listed firms should notify underwriters if they want to cash in more than 50 million yuan (US$7.3 million), or at least 20 per cent of the proceeds, from an account, the bourse said.

The proceeds cannot be used to buy tradable financial assets, be lent to others or be invested in stock funds or companies mainly engaged in buying and selling securities.

The Shanghai Stock Exchange added that majority shareholders and affiliates should not embezzle funds for their own gain.

Analysts said the regulator aims to boost corporate governance in order to bolster investor confidence and stem stock declines.

[Source: People's Daily Online](http://english.peopledaily.com.cn/90001/90776/6438447.html) ([see archive](China_acts_to_boost_supervision_over_stock_proceeds_use.pdf))

### SSE to tighten control over listed companies

On 1st July, the Shanghai Stock Exchange released 'Detailed Rules for Disciplinary Penalties (Rules)', which cover such penalties as the temporary suspension or restriction of trading and the cancellation of members' rights.

According to the Rules, the bourse will also cover the following issues in its scope of supervision: criticising by circulars and publicly denouncing listed companies and their directors, supervisors, senior management personnel, sponsor institutions representatives and related information disclosure obligors; openly recognising that directors, supervisors and senior management personnel of listed companies are unqualified for their offices; suggesting companies replace the secretary to their boards of directors; and restricting trading via securities accounts.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4226) ([see archive](SSE_to_Tighten_Control_over_Listed_Companies.pdf))

### PBOC tackles money laundering via international remittance

The People's Bank of China (PBOC) has urged financial institutions engaged in agency international remittance to evaluate potential money-laundering risks and terrorist financing risks in the operation of their business.

This is according to the recently released 'Circular on Strengthening the Anti-money Laundering in the Operation of Agency International Remittance Business'.

Financial institutions are also required to define the legal liability, and working procedure and performance of anti-money laundering obligations of the two parties involved.

Agents involved must keep client identification materials and trading records, and independently mark and maintain trading records. The materials and records must be kept for at least five years.

Agents must establish operational management procedures for the collection of client identification materials and trading records to ensure the accuracy of information and records given to regulators, and public security and judicial authorities.

[Source: Lexis Nexis](http://www.lexiscn.com/latest_message.php?id=4201) ([see archive](PBOC_Watches_Out_Money-laundering_via_International_Remittance.pdf))

### Corporate note sales suspended

Regulators have suspended approvals for the sale of medium-term corporate notes, unidentified banking sources have said.

The National Association of Financial Market Institutional Investors called a meeting of major brokers recently, announcing that it would cease reviewing company applications for the issue of medium-term notes, or debt due in one to 10 years.

The association was set up in 2007 under the supervision of China's central bank to register corporate debt on the interbank market. Fourteen companies sold 73.5 billion yuan (US$10.7 billion) in three or five-year debt on the China Interbank Bond Market, the nation's major debt market, since they were first allowed to do so on 15th April, according to data compiled by China's biggest clearing house.

Sales of medium-term notes have exerted pressure on so-called enterprise bonds, or debt sales by big state-owned companies reviewed by the nation's top planning agency. Many companies planning to offer enterprise bonds shifted to medium-term notes as of April.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200806/t20080625_1505137.html) ([see archive](Corporate-note_sales_suspended.pdf))

## Corporate & Commercial

### Firms look at enterprise annuity

Dong Yingshen, director of the pension division of the Ministry of Human Resources and Social Security, faced corporate human resources staff at a recent industry forum in Shanghai, eagerly wanting to know more about tax incentives on enterprise annuity.

The personnel wanted to find out from the regulator how the annuity market in China will be developed, including any possible regulatory changes such as tax incentives.

This eagerness mirrors the increasing attention on enterprise annuity in China's pension system.

Enterprise annuity is seen as the second force in the retirement pension system, with public pensions being the first force and individual preparation the third.

More multinational companies are turning to enterprise annuity to attract and retain talent in a booming economy.

"Cash and other short-term incentives may have been the winning formula in the past, but now companies are looking at other compensation components to give them a competitive edge," said Allen Wu, Mercer's China retirement business leader, in a report.

In a recent Mercer survey of 72 MNCs in the mainland, some 70 per cent of respondents said they expected their supplemental retirement benefits plan to be an enterprise annuity type within five years.

China's enterprise annuity scheme is a broad-based program with all company staff enjoying the benefits rather than an incentive to high-level management teams.

The country's enterprise annuity scheme is a trustee-based voluntary program; companies can choose whether or not to partake in the program. The enterprise annuity plan must gain the approval from staff representatives.

China is encouraging the development of the annuity market amid an aging population and the increasing burden of the current pension system. More legislation is also being planned to manage the market, Dong said.

"The market is still a fledging one, lagging behind economic development and is yet to take off,'' Dong said. "The scale of funds under management is just equivalent to a small fund management company."

About 10 million people from 32,000 companies with a total of 151.9 billion yuan (US$22.14 billion) had joined the enterprise annuity scheme by the end of 2007.

By comparison, assets under the management of China Southern Fund Management Company, one of the nation's top three fund managers, totaled 240 billion yuan as of 31st December 2007.

Annuity accounts for 5 per cent of the country's pension assets while in markets like the United States it is around 100 per cent, said Mercer, a US-based consulting firm.

"The strong preference towards enterprise annuity is interesting because considerable uncertainty remains about many aspects of this approach," said Wu.

There are many questions, including tax issues and whether employer contributions will be taxable.

"In particular, unclear tax regulation was highlighted as the main reason why many companies have kept their enterprise annuity plans at bay," said Wu.

In China, employers can deduct less than 4 per cent of an enterprise's total salary for tax payment. The reduction isn't attractive enough, some company representatives said. In the US, the limit is set at 15 per cent.

[Source: Shanghai Daily](http://www.shanghaidaily.com/sp/article/2008/200806/20080630/article_365014.htm) ([see archive](Firms_take_look_at_enterprise_annuity.pdf))

### First broker IPO in over five years

China's stock watchdog has approved Everbright Securities Company's plan to sell shares in Shanghai, paving the way for the first initial public offering in the country by a securities firm in more than five years.

The China Securities Regulatory Commission approved the plan by China's 10th largest brokerage by assets to sell as many as 520 million shares at a meeting yesterday, according to a statement on the regulator's Website.

Everbright will use cash from the IPO, the first since Citic Securities Company's 2003 offer, to increase its outlets to more than 100 and boost hiring. The brokerage has had three straight years of profit, meeting regulatory requirements, after a stock market rally last year helped the industry recover from a loss of 7.8 billion yuan (US$1.14 billion) in 2005.

Everbright has not said how much it aims to raise, and it will be selling shares in a market that has slumped 47 per cent this year.

[Source: Shanghai Daily](http://www.shanghaidaily.com/sp/article/2008/200807/20080701/article_365152.htm) (Link no longer active)

## Other

### China launches industrial IPR strategy trial

The State Intellectual Property Office and the Ministry of Railways signed an intellectual property rights (IPR) strategy cooperation agreement in Beijing on 30th June, marking the launch of China's first state-level industrial IPR strategy trial.

The State Intellectual Property Office and the Ministry of Railways will establish the railway industry's IPR strategy trial, including negotiation cooperation and information service mechanisms, and will jointly research and establish an IPR guide for the railway sector.

They will also promote the construction of IPR management ability in the railway sector. The current railway IPR protection will be strengthened and the railway industry's innovation capability will be enhanced.

In addition, they will jointly research, establish and implement an IPR strategy compendium for the railway industry to guide the establishment and implementation of industrial IPR strategy and to promote the enforcement of the 'Compendium of China National Intellectual Property Strategy'.

Zhang Qin, vice-director of the State Intellectual Property Office, said at the signing ceremony that the official launch of China's first state-level industrial IPR strategy trial marks an important step forward for the implementation of the 'Compendium of China National Intellectual Property Strategy'. It also shows that China has always been a responsible country in IPR protection, including railway IPR protection.

[Source: China Daily](http://www.chinadaily.net/bizchina/2008-07/01/content_6810863.htm) ([see archive](China_launches_industrial_IPR_strategy_trial.pdf))

### China unveils reconstruction financing plan

China's State Council recently unveiled a raft of fiscal measures to support reconstruction after the 12th May earthquake, including the exemption of corporate income taxes this year for companies that suffered heavy losses.

The Cabinet announced a range of policies, including taxation, credit and employment policies, to support reconstruction, as well as tax relief for companies funding reconstruction.

It also promised a six-month extension on all loan repayments in arrears due to the earthquake.

The State Council said affected companies will be given priority in applications for initial public offerings on the stock market or refinancing plans if already listed.

"The affected organisations are also encouraged to raise funds for reconstruction on the bond market," the Cabinet announcement said.

Insurance institutions will be instructed to invest funds in key reconstruction projects as well as infrastructure in the earthquake zone, according to the statement.

The State Council also announced that new homes for survivors will be exempted from land use and other land-related taxes.

In addition to subsidies averaging 10,000 yuan for each homeless household, the Cabinet said interest on home loans to earthquake survivors will be lowered by 40 per cent, compared with the benchmark interest rate.

The minimum down-payment will be cut to 10 per cent of the loan, compared with 20 to 50 per cent in other parts of the country.

The State Council also pledged to find employment for at least one member of each jobless family, and to subsidise the required social security insurance for companies that employed such people.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-07/01/content_6810542.htm) ([see archive](China_unveils_quake_reconstruction_financing_plan.pdf))

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